

SUMMER RESIDENTS ADVISORY COMMITTEE
POSITION PAPER – BUDGETARY ISSUES
August 22, 2013

The Summer Residents Advisory Committee respectfully submits this Position Paper for consideration by the Board of Selectmen, the Finance Committee and the Town Manager in developing the General Fund Budget for FY15 and in planning for FY16 and FY17.

SUMMARY

- The 2015, 2016 and 2017 budgets should be “level funded”, meaning that the total property tax levy in each of those years should not exceed the levy in 2014 of approximately \$29.2 million, plus any increased amount attributable to new growth.
- Additional revenues should be raised through an increase in the Hotel/Motel tax, mooring permits, and other permits where appropriate.
- Operating costs should be reduced through department consolidation, additional regionalization, review of service levels, and, where possible and appropriate, outsourcing.

BACKGROUND

At the 2012 Summer Town Meeting and in its August 2012 Budget Position Paper, the Committee recommended that the Board of Selectmen, as a matter of policy, direct the Town Manager to prepare a budget for 2014 with total operating expenses, including education and debt service not to exceed the \$34.6 million of expenses in the 2013 budget. The Committee is pleased that this goal was substantially accomplished, with the increase limited to less than 1%.

<u>2013 Budget</u>	<u>2014 Budget</u>	<u>Change</u>
\$34,644,620	\$34,917,728	.78%

However, it was largely achieved because the \$430,000 decrease in education expenses offset most of the \$536,000, or 3% increase in operating expenses, excluding education and debt service. The Committee believes that every effort should be made to avoid future increases in these operating expenses, particularly in light of the substantial challenges facing the Town in the years ahead.

It should be noted that the average Chatham single family tax bill has increased from \$3,271 in 2009 (below the Cape wide average) to \$3,919 in 2013 (above the Cape average) up

20%, while the expenditures per capita have increased from \$4,564 in 2008 to \$5,559 in 2012, up 22%, among the highest of the Cape towns. Although our debt service as a percent of budget is the highest of the Cape towns, it is offset by our education expense which is the next to lowest on the Cape. Unless aggressive steps are taken to limit any additional growth in our expenses, the Town will become even less affordable for residents and non-residents alike, particularly those living and working in Chatham.

The Committee recommends and encourages the Town to continue to plan on a three year cycle so that issues facing the Chatham in FY16 and FY17 will be considered while planning the 2015 budget.

The Town faces several significant challenges during FY15-FY17, including the capital costs and resulting debt service obligations for a new firehouse and implementation of the wastewater plan. Both of these imperatives will require voter action and in order to maximize the chances of approval, it is important to avoid any additional tax increases during the three year period.

This will require a critical review of the way the Town does business, and a willingness to make hard choices and tough decisions to contain those costs which are within the control of the Selectmen and Town Manager.

Outlined below are some of the budgetary challenges and opportunities facing the Town during the three year period.

CHALLENGES

The following challenges will place upward pressure on the budget:

Debt Service. Debt service in FY14 is rising to \$7.6 million, a 29% increase over FY12, and constitutes 17% of general fund and education expense. With the new firehouse and continued wastewater plan implementation (including the \$15 million authorized at the 2013 May meeting), this debt service obligation will increase, both in amount and as a percentage of expense, even though the increase will be mitigated by continuing debt drop off. The Committee strongly believes that both of these capital expenditures are essential. Although the Committee is disappointed in the projected cost of the firehouse, there is no doubt that the existing facility must be replaced. To date the initial phases of the wastewater project have been completed on or ahead of schedule and under budget, and the next phases should be completed as promptly as possible.

Education. Although the Town will continue to realize savings from consolidation with Harwich, education costs will increase in FY15-FY17, by an estimated \$800,000 annually over

FY13, covering Chatham's share of the School District's debt service obligation for the new high school. In addition the Committee understands that for technical reasons Chatham's FY14 assessment was understated by about \$300,000, necessitating an additional \$600,000 in education expense for FY 15 (\$300,000 FY 15 plus \$300,000 for FY 14), and \$300,000 in each of FY 16 and FY 17. This means that our education expense will increase at least \$1.4 million in 2015, without regard to any other changes in school operating expenses.

Five Year Capital Plan. The Committee has noted that in December 2012 the Board of Selectmen adopted "Budget and Financial Management Policies", a sensible, practical and constructive set of guide lines governing budgetary and financial issues. The Policy calls for a "Capital Improvement Budget" of between 3% and 7% of the Town's Operating Budget for maintenance and new capital projects in the range of \$5,000 to \$250,000. The 2014 budget appropriately contemplates expenditures at the top end of the range, or \$1,895,000, up 76% from 2013. Since the Five Year Capital Plan has been underfunded for several years due to the economic downturn, the Committee believes that the Capital Improvement Budget for FY15, FY16, and FY17 should continue at close to the 7% level.

Other Post-Employment Benefits. As required under state law, Chatham provides retired employees with health and life insurance benefits. The Town's obligation is unfunded. The amount of the annual payments has been increasing from \$472, 000 in 2006 to \$877,000 in 2013. The actuarial accrued liability as of June 30, 2010 has been estimated at \$43.7 million, although this amount may be subject to downward adjustment since the liability for current Monomoy School District employees is being assumed by the School District.

The committee anticipates that the cost of these benefits will continue to increase in the years ahead, and steps should be taken to minimize the annual impact on future budgets. At the May 2012 Town meeting, the voters authorized the creation of an Other Post Employment Health Insurance Liability Trust Fund for the purpose of funding future obligations for these benefits.

The Committee recommends that the Budget and Financial Management Policies be amended to include a policy for funding of these obligations. One approach would be to continue to fund benefits for **current retirees** on a pay as you go basis as at present, which obligations will decrease over the long term due to mortality. For **current employees**, the annual increase in the actuarially determined present value of the benefits should be currently contributed to the Trust and funded out of the general fund budget. When current employees retire, their benefits should be paid out of the Trust, which will necessitate funding the Trust at appropriate levels.

Benefits payable after retirement should be recognized as a current cost and the foregoing suggestion will do so for current and future employees, while continuing to treat past employees on a pay as you go basis as in the past.

OPPORTUNITIES

The following opportunities should be considered to increase revenues and decrease expenses.

The Budget and Financial Management Policies provides that “Fees for all municipal services shall be set to recover approximately 100% of the cost of the services.” The Committee believes that the Town may fail to achieve this objective because of its practice of budgeting and accounting for employee benefits as a separate cost center, rather than allocating these costs back to the departments involved. This practice may result in the perception that fees are covering the cost of services when in fact they may not. Accordingly, starting with the next budget cycle, the Committee recommends that the cost of employee benefits be allocated back to each department which can be done as a simple percentage of compensation. The “Employee Benefits” cost center should be limited to OPEB, and be renamed accordingly.

Increased Revenue. The Committee believes that there are opportunities to increase revenues apart from raising the tax levy: They include:

Hotel/Motel Tax. The state currently imposes a 5.7% tax and the Town 4%. The Town is authorized to increase that tax an additional 2% which will raise an estimated \$600,000 annually. Other cape towns with the town’s portion of the tax at 6% include: Barnstable, Bourne, Brewster, Provincetown, and Yarmouth. The Committee does not believe that this additional tax will have any negative impact on either tourism revenue or the owners of hotels or motels.

Mooring Permits. Chatham’s mooring permit fees are the lowest on the Cape, less than half the average of other Cape towns. For the average 23 foot boat moored in Chatham, a mooring now costs \$57.50. In Falmouth, it is \$91, in Barnstable \$70, in Yarmouth \$175, in Harwich \$125, in Orleans \$75, in Dennis \$150, in Wellfleet \$212, and in Provincetown \$80. Current fees total about \$200,000 annually and are not sufficient to cover the costs of the Harbor Master Department. The fees should be raised to levels competitive with other cape towns, which should generate between \$200,000 and \$300,000 annually.

Other Fees. All other fees for town services should be reviewed to make sure they are both competitive and cover the costs of the services involved.

Decreased Expenses. The Committee believes there are opportunities to decrease expenses. They include:

Overtime. Fire Department overtime in 2012 totaled \$640,000, is estimated at \$589,000 in 2013 and is budgeted at \$455,000 in 2014. The Committee finds this level of overtime to be excessive and unacceptable. If, as currently structured, it is not possible to eliminate or substantially reduce overtime, the Town needs to consider other models for providing these services. How are fire and EMT services provided in other Massachusetts towns? Has Chatham benchmarked the cost of these services. When will central dispatch be implemented and what impact will it have on overtime? In all events the Town Manager should begin to plan now for how to substantially reduce, if not entirely eliminate fire department overtime in FY15 – FY17.

Additional Regionalization. Consideration should be given to regionalizing additional services during the planning period. Potential candidates include the Tax Assessors Office. This important function is conducted throughout the Commonwealth under a common set of laws, regulations and standards. There is no reason to perform the function differently in Chatham than in any other cape town. A study should be initiated to determine if saving could be realized by performing this function for all cape towns at the county level.

Department Consolidation. Are there opportunities to reduce costs, improve service and realize efficiencies by consolidating existing departments?

Facility Consolidation. The Town Manager and BOS should consider whether savings can be realized by relocating the departments now housed in the Main Street building to other facilities, such as the Community Center, the new Annex and the Police Station. This will potentially generate revenue through leasing the existing Main Street building for commercial or residential use, and reduce utility, insurance and maintenance costs. The Committee sees no need for the Town to maintain offices in the center of town. In addition, it potentially will make available additional parking space currently used by employees and visitors to the Town Office.

Review Service Levels. How are service levels determined? For an example, do we have a plan spelling out which streets should be swept and how often? If the Town reduced street sweeping 50% would there be an adverse impact on health, safety or appearance of the Town? What would be the impact on fuel, equipment maintenance, life of the equipment, and personnel costs? Harwich appears to have an identical piece of equipment. Could we share one sweeper and both towns realize savings. The Committee obviously does not have the

experience or ability to sort out and come to conclusions about these types of questions. But they are questions which the town management should raise and answer for all departments, over the three year planning period.

Outsourcing. The Committee recognizes that opportunities for outsourcing may be limited given constraints imposed under collective bargaining agreements and state law. However, when and if opportunities arise to provide services through alternate means, such as outsourcing, they should be carefully considered and implemented, where appropriate.

Staff Reductions. Retirements and resignations should be considered as an opportunity to promote efficiency and productivity, improve service, and reduce costs, through combining functions, reassignments and departmental consolidation or reorganization, as a part of a continuing process to consider and change, as circumstances make appropriate, the way the Town does business. This is exactly the process that takes place on a daily basis in the business world and, in large measure accounts for the remarkable improvement in productivity experienced throughout the economy. No staff vacancy should be filled unless justified by a study demonstrating need to the same standard as if a new position was being considered.

Attached is an Appendix which illustrates the budgetary impacts of the Committee's recommendations over the three year planning period, FY15, FY16, and FY17.

As the Appendix illustrates, with:

- No increase in the tax levy, other than increases attributable to new growth;
- About \$800,000 in new revenue from increases in the Hotel/Motel tax and mooring permits;
- Increased debt service attributable to the new fire station and wastewater implementation; and
- Continued funding for the five year capital plan at close to the 2014 level
- General Fund operating expenses (excluding debt service and education) continuing at the 2014 level

The Town will generate modest surpluses in FY14-FY17 which will be available to fund OPEB or other reserves.

The Appendix departs from the Town's historical practice of underestimating "Local Receipts" and allocating the resulting surplus to "Free Cash". The Appendix projects "Sources" and "Uses" of funds over the four year period FY14-FY17. Sources include Local Receipts at the 2012 level, escalated at 2.5% annually (although State Aid is projected to continue at the 2012

level). The Committee believes that with a realistic estimate of Local Receipts, sources of funds will exceed uses in 2014 and generate a \$1.6 million surplus, which may be treated as “Free Cash”, and which should be set aside as a reserve fund or contributed to the OPEB Trust.

The Committee recognizes that the same type of non-discretionary “budget busters” impacting the 2014 budget are likely to also affect FY15, FY16, and FY17. Accordingly, it is essential that these increases be offset by cost reductions, including modest headcount reductions, largely achieved through attrition.

Although implementation of these recommendations will require time and effort, the Committee believes that the long term fiscal health of the Town requires that expenses be reduced in order to continue funding of needed capital programs, and to prevent the Town from becoming even more expensive than at present.

By exercising strict budgetary discipline during the next three years the Town has the opportunity hold the tax levy constant, provide essential services, fund its five year capital needs, build a new fire station, continue to implement the Wastewater Plan, and begin to address funding OPEB liabilities.

The Summer Residents Advisory Committee very much appreciates the opportunity to express its views and hopes that its suggestions will be useful as the Town considers the 2015 budget and plans for FY16 and FY17.

Information Sources Include: 2012 Annual Report; Annual Town Meeting Warrants, 2009-2013; June 14, 2012 Official Statement \$22.9 million General Obligation Bonds; Massachusetts Department of Revenue Reports.